

**REPORT OF THE AUDIT OF THE  
KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**For The Fiscal Year Ended  
June 30, 2003**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Stan Riggs, Executive Director, Kentucky Educational Development Corporation

Board of Directors of the Kentucky Educational Development Corporation

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the financial statements of the Kentucky Educational Development Corporation, Ashland, Kentucky, as of June 30, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC, evaluated the Kentucky Educational Development Corporation's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





Financial Statements

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

June 30, 2003



# KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

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June 30, 2003

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Certified Public Accountants and Advisors

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kentucky Educational Development Corporation  
Ashland, Kentucky

We have audited the accompanying combined financial statements of the Kentucky Educational Development Corporation (a non profit organization) as of and for the year ended June 30, 2003, as listed in the table of contents. These combined financial statements are the responsibility of Kentucky Educational Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Educational Development Corporation as of June 30, 2003, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2003, on our consideration of Kentucky Educational Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined financial statements of Kentucky Educational Development Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the audit procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

Louisville, Kentucky  
December 13, 2003

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**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS**

June 30, 2003

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<b>Assets</b>			
Cash and short-term investments	\$ 256,110	\$ 267,143	\$ 31,895
Receivables:			
Accounts receivable	351,796	121,139	-
Accrued interest receivable	-	3,477	-
Fixed assets	-	-	-
Amounts to be provided for unpaid sick leave	-	-	-
Amount to be provided for debt retirement	-	-	-
<b>Total Assets</b>	<u>\$ 607,906</u>	<u>\$ 391,759</u>	<u>\$ 31,895</u>
<b>Liabilities</b>			
Accounts payable	\$ 115,691	\$ 99,269	\$ -
Deferred revenue	62,059	292,490	-
Debt obligations	-	-	-
<b>Total Liabilities</b>	177,750	391,759	-
<b>Fund Equity</b>			
Investment in general fixed assets	-	-	-
Fund balance			
Unrestricted fund balance	430,156	-	-
Restricted fund balance	-	-	31,895
<b>Total Fund Equity</b>	<u>430,156</u>	<u>-</u>	<u>31,895</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 607,906</u>	<u>\$ 391,759</u>	<u>\$ 31,895</u>

See accompanying independent auditor's report  
and notes to financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long Term Debt	
<u>Agency</u>			
\$ 7,922,753	\$ -	\$ -	\$ 8,447,901
2,819	-	-	475,754
-	-	-	3,477
-	1,547,488	-	1,547,488
-	-	87,525	87,525
-	-	155,000	155,000
<u>\$ 7,925,572</u>	<u>\$ 1,547,488</u>	<u>\$ 242,525</u>	<u>\$ 10,747,145</u>
\$ 7,925,572	\$ -	\$ -	\$ 8,140,532
-	-	-	354,549
-	-	242,525	242,525
7,925,572	-	242,525	8,737,606
-	1,547,488	-	1,547,488
-	-	-	430,156
-	-	-	31,895
-	1,547,488	-	2,009,539
<u>\$ 7,925,572</u>	<u>\$ 1,547,488</u>	<u>\$ 242,525</u>	<u>\$ 10,747,145</u>

# KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

## COMBINED STATEMENT REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2003

	General Fund	Special Revenue Fund	Debt Service Fund	Totals (Memorandum Only)
<b>Revenues:</b>				
Federal, state and other grants	\$ -	\$ 1,937,600	\$ -	\$ 1,937,600
Local and other	3,920,420	75,592	-	3,996,012
Interest income	<u>9,692</u>	<u>302,576</u>	<u>472</u>	<u>312,740</u>
<b>Total Revenues</b>	3,930,112	2,315,768	472	6,246,352
<b>Expenditures:</b>				
Personnel and fringe benefits	1,062,841	1,235,918	-	2,298,759
Professional and technical services	113,104	162,803	-	275,907
Repairs and maintenance	22,031	7,555	-	29,586
Utilities	32,102	5,602	-	37,704
Other purchased services	106,247	47,721	-	153,968
Supplies and materials	2,003,530	130,477	-	2,134,007
Travel	96,332	266,696	-	363,028
Debt service	-	-	29,700	29,700
Fixed Assets	-	76,236	-	76,236
Miscellaneous	<u>199,151</u>	<u>382,760</u>	<u>76</u>	<u>581,987</u>
<b>Total Expenditures</b>	3,635,338	2,315,768	29,776	5,980,882
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	294,774	-	(29,304)	265,470
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	28,325	28,325
Operating transfers out	<u>(28,325)</u>	<u>-</u>	<u>-</u>	<u>(28,325)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	266,449	-	(979)	265,470
<b>Fund Balance, Beginning of Year</b>	<u>163,707</u>	<u>-</u>	<u>32,874</u>	<u>196,581</u>
<b>Fund Balance, End of Year</b>	<u>\$ 430,156</u>	<u>\$ -</u>	<u>\$ 31,895</u>	<u>\$ 462,051</u>

See accompanying independent auditor's report  
and notes to financial statements

## **KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

June 30, 2003

#### **NOTE A--GENERAL STATEMENT**

Kentucky Educational Development Corporation (KEDC) was established in 1969 as a nonprofit corporation exempt under Section 501(c)(3) of the Internal Revenue Code of 1954. In July 1978, the Corporation entered into an interlocal cooperation agreement under KRS 65.160 whereby it was deemed mutually advantageous for KEDC to provide certain services, programs and/or facilities to all member school districts.

Currently, KEDC has a membership of sixty nine school districts and the Board of Directors is comprised of Superintendents of the various school districts.

#### **NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

The Corporation receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Corporation is not included in any other government "reporting entity" as defined by the GASB pronouncement, since Board members have decision making authority, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters.

The financial statements of the Corporation does include the financial information of separately administered organizations that are controlled by or dependent on the Corporation. Control and dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the following criteria, the financial statements of the following organization are included in the accompanying financial statements.

##### Kentucky Educational Development Finance Corporation

On June 22, 1994 the Kentucky Educational Development Corporation resolved to authorize the establishment of the Kentucky Educational Development Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under KRS 273) as an agency and instrumentality of KEDC in financing the cost of refinancing the acquisition construction of extensions, additions and improvements to the central office headquarters located in Ashland, Kentucky. Board members from KEDC also comprise the Finance Corporation's Board of Directors.

##### Basis of Presentation – Fund Accounting

The accounts of the Corporation are organized on the basis of funds or account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Corporation.

Continued

## KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

### NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

##### Governmental Fund Types

General Fund – The general operating fund accounts for all financial resources of KEDC that are not required to be accounted for in the special revenue funds.

Special Revenue Funds – Account for the proceeds of specific revenue sources, the expenditures for which are legally restricted for purposes specified in the grant agreements.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

##### Fiduciary Fund Type

Agency Fund – Accounts for the assets held by KEDC for other entities. Agency funds are custodial funds whereas assets and liabilities are equivalent; therefore, they do not involve measurement of operations.

##### Account Groups

Account groups are used to establish accounting control and accountability for KEDC's general fixed assets and general long-term debt. The following are KEDC's account groups:

General Fixed Assets Account Group – Fixed assets purchased by governmental fund types (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

General Long-Term Debt Account Group – This account group is established to account for all general long-term debt of KEDC and for those long-term liabilities to be liquidated with resources to be provided in future periods.

##### Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurements focus applied.

The governmental fund types use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Even though the Fiduciary Fund Type (Agency Fund) does not involve the measurement of operations, the modified accrual basis of accounting is followed for recognizing assets and liabilities. Their revenues are recognized when susceptible to accrual (when they become measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Continued

## KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

### NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable.

The various sources of revenue are grants, member dues, service related, and other revenues are further discussed below:

##### Federal and State Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in retroactive adjustment in subsequent periods.

##### Member District Dues

All member districts are required to pay dues to KEDC. Dues are determined annually and are recognized as revenues when assessed because they are measurable and collectible within the current period.

##### Other Revenues

Other revenues are composed primarily of interest, sales, charges for services, and miscellaneous charges. Interest income, sales and charges for services are recorded as earned since it is measurable and available. Miscellaneous charges are recorded as revenues when received because they are generally not measurable until actually received.

##### Budgets and Budgetary Accounting

KEDC's annual budget is a management tool that assists its users in analyzing financial activity. KEDC's primary funding sources are federal, state and local grants that have grant periods that may or may not coincide with KEDC's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of KEDC's dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. KEDC's annual budget differs from that of a local government in two respects: (1) the uncertain nature of grant awards from other entities and (2) conversion of grant budgets to a fiscal year basis.

The resultant annual budget is subject to constant change within the fiscal year due to:

- a. Increases/decreases in actual grant awards from those estimated;
- b. Changes in grant periods;
- c. Unanticipated grant awards not included in the budget; and
- d. Expected grant awards that fail to materialize.

Continued

## KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

### NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the grant budget terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances.

##### State Administered Grants

State Administered Grants are federal grant funds, appropriate state funds, or a combination of the two, which are allocated to state agencies then reallocated to local units of government.

##### Operating Transfers

Operating Transfers are the distribution of local cash resources to grant projects requiring local cash match in accordance with the terms and conditions of grant contract. In addition local funds are used for expenditures in excess of grant proceeds awarded.

##### General Fixed Assets

Fixed Assets are recorded at historical cost. In accordance with generally accepted accounting principles, no provision is made for depreciation of such assets in the General Fixed Assets Account Group.

##### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from those estimates.

##### Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. No consolidating entries or other eliminations were made in the aggregation of the totals; thus, they do not present consolidated information and do not purport to present financial position, results of operation, or cash flows in conformity with accounting principles generally accepted in the United States of America.



# KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

## NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

### NOTE C--CASH AND INVESTMENTS

The Corporation's deposits and investments at June 30, 2003 were covered by federal depository insurance or investments of U.S. Treasury Obligations or other Government Agencies. Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

KEDC invests in the Kentucky Class Portfolio administered by AMBAC Securities, Inc. These approved investments are carried at cost, which approximates market and may be liquidated as needed. These investment pools have not been assigned a risk category since KEDC is not issued securities, but rather owns and undivided beneficial interest in the assets of these pools. Due to the short-term nature of the Portfolio's assets and liabilities, the carrying value as recorded in the balance sheet approximates fair value. Listed below are the balances held in the investment pool at June 30, 2003:

	<u>General Fund</u>	<u>Agency Fund</u>	<u>Totals</u>
General Investment	\$1,232,613	\$ -	\$ 1,232,613
American Fidelity Flex	<u>-</u>	<u>7,925,437</u>	<u>7,925,437</u>
	<u>\$1,232,613</u>	<u>\$ 7,925,437</u>	<u>\$ 9,158,050</u>

### NOTE D--FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2003, follows:

	<u>Land and Buildings</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Totals</u>
Balance, June 30, 2002	\$ 367,872	\$ 782,412	\$ 336,377	\$ 1,486,661
Additions	-	60,827	-	60,827
Deletions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2003	<u>\$ 367,872</u>	<u>\$ 843,239</u>	<u>\$ 336,377</u>	<u>\$ 1,547,488</u>

## KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

### NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE E--BONDED DEBT AND LEASE OBLIGATION

In October 1994, Kentucky Educational Development Corporation entered into a lease/option contract with Kentucky Education Finance Corporation to make semi-annual payments equal to the principal and interest requirements of its 1994 issue of First Mortgage Revenue Bonds totaling \$275,000 and bearing interest rates of 5.6% to 6.0%. The purpose of this issue was to provide funds to retire a mortgage note held by KEDC with First and Peoples Bank and Trust Company of Russell, Kentucky, for the purchase of land and building currently occupied by KEDC. Changes in bonds payable for the year ended June 30, 2003 are outlined below:

Balance outstanding at June 30, 2002	\$ 175,000
Bonds retired during current year	<u>(20,000)</u>
Balance outstanding at June 30, 2003	<u>\$ 155,000</u>

The bonds have been prepared as two fully registered Term Bonds maturing October 1, 2004 and October 1, 2009. The minimum obligations of KEDC at June 30, 2003 for debt services (principal and interest) are as follows:

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	20,000	8,580	28,580
2005	20,000	7,460	27,460
2006	20,000	6,300	26,300
2007	20,000	5,100	25,100
2008	25,000	3,750	28,750
2009	25,000	2,250	27,250
2010	<u>25,000</u>	<u>750</u>	<u>25,750</u>
	<u>\$ 155,000</u>	<u>\$ 34,190</u>	<u>\$ 189,190</u>

#### NOTE F--ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from KEDC, an employee will receive from the Corporation an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, thirteen employees were eligible for retirement and thus, a liability of \$87,525 was recorded for accumulated sick leave. Also, beginning in 1997, KEDC implemented a policy of funding a percentage of total wages paid for accumulated sick leave benefits as reservation of the General Fund balance. The total reserved at June 30, 2003 was \$87,525.

## KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

### NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE G--RETIREMENT PLANS

##### A. Kentucky Teachers Retirement System

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service.

Funding for the plan is provided by contributions from eligible employees and an employer contribution at a rate of 12.305% of salaries. During the year ended June 30, 2003, the Corporation contributed \$49,839 and employees contributed \$126,693 to the Plan.

##### B. County Employees' Retirement System

For Classified employees, the Corporation contributes to the County Employees' Retirement System (CERS), a cost sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

Plan members are required to contribute 5% of their annual creditable compensation, and the Corporation is required to contribute 6.34% of the employee's total compensation. The contribution requirements of CERS members and the Corporation are established and may be amended by the CERS Board of Trustees. The Corporation's contributions to CERS for the year ending June 30, 2003 were \$49,856 while employees contributed \$39,319.

KEDC is only one of several employers participating in these Plans. Therefore, it is not practicable to determine KEDC's portion of the unfunded past cost or the vested benefits of KEDC's portion of Plan assets.

#### NOTE H--RISK MANAGEMENT

KEDC is exposed to various risks of loss related to the theft of, damage to and destruction of assets, errors and omissions, fiduciary responsibilities and natural disasters for which it carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no significant settlements in the past two years.

#### NOTE I--INCOME TAX STATUS

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954; accordingly, the accompanying financial statements include no provision for such taxes.

## **KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

### **NOTES TO COMBINED FINANCIAL STATEMENTS--CONTINUED**

June 30, 2003

#### **NOTE J--COMMITMENTS AND CONTINGENCIES**

##### Grant Programs

The Corporation participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grants programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Corporation has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2003 may be impaired. In the opinion of the Corporation, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## **SUPPLEMENTARY INFORMATION**



**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2003

<u>Federal Grantor/Pass Through Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Passed Through from Cabinet for Workforce Development: Adult Education	*84.002	DAEL-2003-016	\$ 320,345
Passed Through from Department for Education: IDEA-B	*84.027	0581-02-04	<u>485,526</u>
<b>Total U.S. Department of Education</b>			<u>805,871</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 805,871</u>

\*Denotes Major Program

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For The Year Ended June 30, 2003

**NOTE A: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kentucky Educational Development Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.





Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Kentucky Educational Development Corporation.

We have audited the financial statements of Kentucky Educational Development Corporation, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Educational Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Educational Development Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Board of Kentucky Educational Development Corporation's, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, these reports are a matter of public record and their distribution is unlimited.

*Carpenter, Mountjoy & Bressler, PSC*

Louisville, Kentucky  
December 13, 2003

- 14 -

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Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-  
133**

To the Board of Directors  
Kentucky Educational Development Corporation

Compliance

We have audited the compliance of Kentucky Educational Development Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Kentucky Educational Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Kentucky Educational Development Corporation's management. Our responsibility is to express an opinion on Kentucky Educational Development Corporation compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Educational Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kentucky Educational Development Corporation's compliance with those requirements.

In our opinion, Kentucky Educational Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Kentucky Educational Development Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kentucky Educational Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Board of Kentucky Educational Development Corporation, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, these reports are a matter of public record and their distribution is unlimited.

*Carpenter, Ministry & Brasher, PLLC*

Louisville, Kentucky  
December 13, 2003

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2003

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027  
84.002

IDEA B  
ADULT EDUCATION

Dollar threshold used to distinguish  
Between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

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**Section II-Financial Statement Audit Findings**

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No matters were reported.

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**Section III-Major Federal Award Program Audit Findings and Questioned Costs**

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No matters were reported.

**KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2003

No matters were reported

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